



County of Los Angeles CHIEF EXECUTIVE OFFICE

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August 11, 2011

To: Mayor Michael D. Antonovich
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From: William T Fujioka
Chief Executive Officer

FINAL REPORT TO THE BOARD ORDER OF JANUARY 18, 2011 TO MONITOR MUNICIPAL BANKRUPTCIES IN THE UNITED STATES THAT WOULD HAVE A DIRECT IMPACT ON OUR MUNICIPALITIES AND REPORT BACK ON THE COURT DECISION ON THE CITY OF VALLEJO BANKRUPTCY PLAN

On January 18, 2011, Mayor Antonovich requested the Chief Executive Office to monitor municipal bankruptcies in the United States that would have a direct impact on our municipalities and report back on the court decision on the City of Vallejo bankruptcy plan. This report provides information on the recent court action regarding the City of Vallejo's bankruptcy plan and an update on new developments related to municipal bankruptcies.

City of Vallejo

As reported on February 22, 2011, the City of Vallejo filed for bankruptcy in 2008, and on January 18, 2011, the City filed a plan for the adjustment of debts with the United States Bankruptcy Court. The City's plan proposed to: 1) renegotiate labor contracts; 2) develop a new employee benefits structure; 3) reduce employee benefits; and 4) restructure capital and infrastructure projects.

On August 5, 2011, Presiding Judge Michael McManus signed an order approving the City of Vallejo's bankruptcy exit plan after the City finalized the settlement language with Union Bank N.A., the City's primary creditor. Under the final plan, the City of Vallejo is

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responsible for \$46.0 million in principal owed to Union Bank, but the interest rate on the outstanding debt has been reduced from 7.25 percent to a maximum of 2.5 percent. Retirees are required to pay more for their health benefits and the City negotiated lower cost union contracts for current City workers. The City plan, however, does not alter financial securities which were tied to designated revenue sources, such as \$175.0 million in water revenue bonds, and other special tax obligations secured by special revenues within the City's restricted funds.

Municipal Bankruptcy Recent Developments

County-opposed, AB 506 (Wieckowski), which as amended on June 29, 2011, would impose a mediation requirement for local agencies prior to seeking Chapter 9 bankruptcy protection under the Federal bankruptcy process. Currently, Federal law authorizes municipalities to file a bankruptcy petition pursuant to Chapter 9 and provides financially-distressed municipalities protection from its creditors while the municipality develops and negotiates a plan for adjusting its debts. AB 506 would require local government agencies to participate in mediation prior to filing bankruptcy under Federal law, and follow mediation guidelines adopted by the California Debt and Investment Advisory Commission. Traditionally, a mediator is brought in to help resolve issues between parties who wish to come to a resolution. However, under AB 506, the mediator is granted extraordinary powers and all parties, even those not interested in a resolution, are forced into a mediation process.

Recently proposed amendments to AB 506 would remove the mandatory mediation requirement and provide for an expedited alternative procedure under a newly created Local Agency Bankruptcy Committee that would not require involvement by unions or retirees. According to the Chief Executive Office's Division of Benefits, Compensation, and Employee Relations, should the proposed amendments be included in the final language of the measure, the Chief Executive Office would recommend removal of the oppose position on this measure.

AB 506 passed the Senate Government and Finance Committee on July 6, 2011 by a vote of 6 to 3 and was referred back to the Senate Rules Committee. The author's office indicates that this measure may be a two-year bill as the author continues to work with the opposition to address their concerns. We will continue to monitor the measure's progress and report substantive changes to your Board.

Other Bankruptcy Developments

According to various news accounts, Jefferson County, Alabama, home to Birmingham, the state's largest city, is considering filing for Chapter 9 bankruptcy to deal with

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\$3.2 billion in bond debt which was issued to finance an upgrade of its failing sewer system as a result of a Federal Court order. The bonds were linked to derivatives to protect the county if interest rates rose. However, the bond deals were plagued with pay-to-play and bid-rigging scandals that led to the convictions of several officials and refunding of fees from banks due to settlements with the Federal Securities and Exchange Commission. Compounding the county's fiscal crisis was a decision by the Alabama Supreme Court declaring a county occupational tax unconstitutional which eliminated 44.0 percent of the county's discretionary revenues. This has already led to the elimination of more than 500 jobs in Jefferson County.

On July 28, 2011 the Jefferson County Board of Commissioners delayed a vote on filing for bankruptcy for seven days to review a new offer from the county's creditors which was negotiated with the help of Alabama Governor Robert Bentley. The proposal would reduce the amount of principal owed and use state backing to lower the county's interest rate. Jefferson County would get debt relief through the creation of an independent borrowing authority which would issue bonds guaranteed by the State of Alabama. On August 4, 2011 the Board of Commissioners and its creditors extended a standstill agreement until August 12, 2011 to continue negotiating a settlement. Should the county decide to file for bankruptcy it would be the largest municipal bankruptcy in United States history.

As the City of Vallejo's bankruptcy exit plan will be approved by Judge McManus, all further reports on municipal bankruptcies that have a direct impact on the County will be included in regular Sacramento Updates.

WTF:RA
MR:KL:sb

c: Executive Office, Board of Supervisors
County Counsel